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May 23, 2002

William A. Mundell, Chairman
Jim Irvin, Commissioner
Marc Spitzer, Commissioner
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

DOCKET NUMBERS: E-00000-02-0051; E-01345A-01-0822; ~~E-0000A-01-0630~~; E-011933A-98-0471; E-01933A02-0069

As requested in Arizona Corporation Commission Chairman William Mundell's letter of May 14, 2002, to parties in the above reversed proceedings, Reliant Energy Services, Inc. and Reliant Energy Power Generation, Inc.('Reliant') provides it copy of its responses to the data request issued in the FERC:

Fact-Finding Investigation of Potential Manipulation of Electric and Natural Gas Prices, Docket No. PA02-2-000; May 22, 2002 Responses of Reliant Energy Services, Inc., and Reliant Energy Power Generation, Inc.

Should you have any questions regarding the enclosed response, please do not hesitate to contact Mr. Aldie Warnock, at 713-207-7318.

Respectfully submitted on behalf of Reliant,

Patricia van Midde

Patricia L. vanMidde
Regulatory Consultant
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Enclosure
Hand delivered to:
Chairman William Mundell
Hercules Dellas, Aide to Chairman Mundell
Commissioner Jim Irvin
Kevin Barlay, Aide to Commissioner Irvin
Commissioner Marc Spitzer
Paul Walker, Aide to Commissioner Spitzer
Lyn Farmer, Chief Administrative Law Judge
Chris Kempley, Chief Counsel
Ernest Johnson, Utilities Division Director
Steve Oleo, Utilities Division

Arizona Corporation Commission
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DOCKET NO. PA02-2-000

FACT FINDING INVESTIGATION OF POTENTIAL MANIPULATION OF ELECTRIC AND NATURAL GAS PRICES

Responses of Reliant Energy Power Generation, Inc. and Reliant Energy Services, Inc. to Requests for Admissions, Requests for Production, and Requests for Other Information

Respectfully submitted,

By: ____________________

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ATTORNEY FOR RELIANT ENERGY SERVICES, INC. AND RELIANT ENERGY POWER GENERATION, INC.

Responses to Requests for Admissions

A. 1. Denied.

Reliant did not purchase energy at the CalPX to export outside of California. Initially, Reliant's internal investigation indicated a possibility that Reliant may have purchased California power in the CalPX and exported that power. However, a complete review of Reliant's exports and CalPX purchases during 2000-2001 has established that Reliant's 2000 and 2001 exports were supported from Reliant's non-CalPX bilateral purchases and Reliant's own generation. In addition, scheduling documentation that includes the "tags" that inform control area operators of the source of energy for Reliant's exports out of California confirm that the energy behind Reliant's export sales originated from sources other than CalPX purchases. Furthermore, market rules empower the CAISO to curtail scheduled exports in certain circumstances, including emergency conditions, and the CAISO has never issued an order to curtail Reliant's exports in response to system emergencies in California.

A. 2. Not applicable

B. 1. Denied.

B 2. Not applicable.

C. 1. Denied.

C. 2. Not applicable.

D. 1. Denied

D. 2. Not applicable.

E. 1. Denied.

E. 2. Not applicable.

F. 1. Denied.

F. 2. Not applicable.

G. 1. Denied, except as described below

As a generator in a deregulated market, Reliant could choose either to sell its electric energy (a) to the CalPX (or later the California DWR) prior to the day or hour it was to be used, or (b) in real time directly to the CAISO, which controlled and operated the state's electrical system. A trader such as Enron, which had no generating units in California, could not simply "deliver" real time energy to the CAISO. Instead, a trader such as Enron could sell generation only by "scheduling" a matched set of generation and load together, such as 1000 megawatts of load coupled with 1000 megawatts of generation. This scheduling tool was needed only infrequently by Reliant because the vast majority of Reliant's participation in the California market was as an in-state generator. Reliant supplied 27,819,781 megawatt hours of its own generation to California in 2000 and 2001 and scheduled load for only on half of one percent of that amount.

The design of California's energy markets was premised on the concept that the bulk of demand would be met through balanced schedules in the forward (day ahead and hour ahead) energy markets. The real time market was designed to accommodate the residual supply and demand requirement. This principle is reflected in the basic requirement that Scheduling Coordinators submit schedules to the CAISO representing equal amounts of load and supply. As an outgrowth of this requirement, the market design in California forces marketers with available forward supply to schedule to a load-designated point, a "sink," against which the energy is balanced, or the marketer's energy cannot be available to meet real time needs in California. Two factors have undermined this design – significant underscheduling and the closure of the CalPX day ahead and hour ahead markets. The result is a structure where it is difficult to bring imports or purchased power into the state.

The natural consequence of California's market structure is that suppliers' schedules must be submitted in a way that will not necessarily match up with the ultimate physical delivery. The best mechanism for doing so is a load scheduling tool such as a virtual or physical sink where supply can be delivered. A scheduling tool of this type is particularly important to California because its market depends so heavily on imports and purchased energy other than in-state generation. Use of a delivery point or sink as a scheduling tool to balance forward schedules enhanced the availability of supply in California.

A potentially confusing element of the Enron memoranda, carried forward in Request G above, is the suggestion that the power supplied in association with overscheduled load points was "excess," in the sense that it was unnecessary, or that it was not needed or wanted by the California ISO and load serving entities in the operation of the California electrical system. Experts understand that this is a substantive misconception. Because the answers to this request will be reviewed by a broad lay audience, we wish to make it clear that that neither Reliant nor any other participant in the unscheduled energy market in California was ever paid for "excess generation." These entities were paid only for generation actually delivered to and used by consumers in California. Indeed, it would be impossible under the CAISO Tariff because of its payment structure. If there were an excess of supply in real time, the imbalance energy price automatically would drop to zero or below. This would result in no payment to any supplier in the imbalance market. Thus, as long as prices were greater than zero in the real time imbalance market, the CAISO was not being supplied with "excess generation."

In practice, any market participant that submitted a balanced schedule with excess load could only sell as a "price taker," meaning that the seller could not set prices, but rather accepted whatever price was set through California's market system. Having this body of price takers tended to hold down real time prices, which typically were the highest and most volatile in the California market. In addition, the load schedules submitted by suppliers were the mirror image of, and counteracted some of the negative impacts of, consistent underscheduling of load in forward markets by California's load serving entities.

Consistent with the practice of scheduling forward to make real time supply available to California, Reliant has on some occasions during the relevant period, scheduled small amounts of excess load to CAISO-assigned, load-designated delivery points. As noted above, this amount is only 149,849 megawatt hours, or about one half of one percent of the generation Reliant produced in California in the time frame of this data request (a total of 27,819,781 megawatt hours). Reliant used these load points because they were essential in some circumstances to provide the "sink" needed to perform forward scheduling and to provide a mechanism for congestion adjustment bidding. This type of load scheduling was encouraged and permitted by the market rules, and enabled Reliant to (1) increase available supply to the California market; (2) facilitate the forward commitment of that supply when load serving entities failed to do so; (3) reduce volatility in real time prices; and (4) mitigate congestion within California. These activities were known to and accepted by the CAISO and/or the CalPX, and did not have the effect of inflating real time costs for California because Reliant provided supply as a price taker in the real time market, as detailed below.

(a) On some occasions, through an agreement with the CalPX, Reliant was able to participate in the congestion management market by having the CalPX schedule and submit adjustment bids for a load delivery point at a Reliant unit in South Path 15 (Southern California) on Reliant's behalf. Such bids were submitted for approximately 44 days in the relevant period. Adjustment bidding was necessary so that Reliant could participate in the congestion market and could avoid having to generate at a loss when congestion adjustments caused final day ahead energy prices to be reduced below Reliant's generation costs. Reliant could not submit adjustment bids for itself, because the market design in California was such that the CAISO would only accept congestion-relieving adjustment bids from market participants with resources in both affected zones. Reliant's generation was all located in the South Path 15 zone, but the CalPX had access to points across the state. Thus, once the CAISO re-assigned the load point at Reliant's plant to the CalPX, bids could be submitted by the CalPX on Reliant's behalf and accepted by the CAISO. Both the CalPX and the CAISO were aware that the adjustment load being scheduled by the CalPX at the designated point exceeded the actual load at that load point.

Reliant's participation in the congestion market in this manner was done in accordance with market rules, and had the effect of improving system-wide efficiency and reducing the volatility of post-congestion prices, to the benefit of customers in California. When Reliant's adjustment bids were accepted, Reliant's load and generation schedules would "net out," and Reliant would not receive any payment from the CAISO or the CalPX.

(b) In addition, on 31 days during the relevant period, Reliant scheduled load in small amounts at load delivery points that the CAISO assigned to Reliant's Master File portfolio. Reliant understood that two of these delivery points were "virtual load meters," meaning that no physical meter or load actually existed. Reliant serves no load at these points, and questioned the purpose of these meters. The CAISO informed Reliant that it had assigned the points automatically as a scheduling tool, to allow the company to schedule load or generation to, from, and within the scheduling zones on both sides of the congested Path 15. Accordingly, Reliant sometimes scheduled to its load points in accordance with the terms of the CAISO Tariff in the manner described above, using the points as a scheduling tool to sink imports and purchased power so that the associated energy would be available in California. By doing so, Reliant increased supply and reduced real time energy prices to the benefit of customers in the respective zones in California.

Reliant also identified nine occasions when it scheduled its own generation (approximately 25 to 50 megawatts) located in southern California to Reliant's load point in South Path 15 to meet operational and/or scheduling requirements or with Reliant's marketing arm as the counterparty. In each of these nine instances, pursuant to market rules, Reliant received exactly the same price for the energy that it would have been paid if it had run the generating unit in real time without submitting a schedule (the CAISO decremental price), and was a price taker.

G. 2. Documents responding to this request that Reliant has been able to locate to date after a diligent search are being submitted with this response. If additional documents are located, the response will be supplemented.

H. 1. Denied.

H. 2. Not applicable.

I. 1. Denied.

I. 2. Not applicable.

J. 1. Denied.

J. 2. Not applicable.

K. 1. Denied.

Reliant did not engage in activities known as "inc-ing load" or "relieving congestion," as described above. To the extent that Reliant engaged in market behavior that may be characterized as a variant of such activities, such behavior has been described above in response to the most similar activity.

K. 2. Not applicable.

Responses to Requests for Production

A. Documents responding to this request that Reliant has been able to locate to date after a diligent search are being submitted with this response.

B. Documents responding to this request that Reliant has been able to locate to date after a diligent search are being submitted with this response. If additional documents are located, the response will be supplemented. As specified in this Request, Reliant is providing an index of three privileged documents that are not included in this filing.

Responses to Requests for Other Information

A. Reliant did not develop or utilize any models or forecasts that built in underscheduling projections based on the systematic load underscheduling by the three large utility distribution company buyers in the forward market. When submitting bids to supply California markets, Reliant took into account publicly available data, including CAISO load forecasts and day ahead market purchases, which data confirmed the consistent pattern of underscheduling by load-serving entities in California. Underscheduling in the day ahead market in this manner (1) increased the volume of power scheduled in the subsequent hour ahead and real time markets, leading to higher prices and increased volatility; and (2) created phantom congestion where it appeared after day ahead schedules were submitted that Path 15 would be congested, but the load and supply actually balanced when full load appeared in real time. This pattern of underscheduling and the existence of phantom congestion has been widely documented and discussed in Commission orders.

B. Reliant did not purchase energy from, or sell energy to, any Enron company, including Portland General Electric Company, as part of a "Ricochet" or megawatt laundering transaction during the period 2000-2001.

VERIFICATION

STATE OF TEXAS §
§
COUNTY OF HARRIS §

Hugh Rice Kelly, being duly sworn, deposes and says:

My name is Hugh Rice Kelly. I am the Executive Vice President, General Counsel and Corporate Secretary of Reliant Energy, Incorporated ("REI"), and Senior Vice President, General Counsel and Corporate Secretary of Reliant Resources, Incorporated ("RRI") and am authorized to make this verification on behalf of REI, RRI and their subsidiaries, Reliant Energy Services, Inc. and Reliant Energy Power Generation, Inc. (referred to together as "Reliant").

I have examined the foregoing Responses to Requests for Admissions, Requests for Production, and Requests for Other Information and documents provided with the responses (the "Responses"). Although facts stated in the Responses are not within my personal knowledge, I certify that the information and documents provided constitute a response that is true and accurate to the best of my knowledge, information, and belief formed, after a thorough investigation was diligently conducted, under my supervision and control, into the trading activities of the company's employees and agents, including the affiliates and subsidiaries of Reliant, in the U.S. portion of the WSCC during the years 2000 and 2001.

Hugh Rice Kelly

SUBSCRIBED AND SWORN TO BEFORE ME, on this the 21st day of May, 2002, to certify which witness my hand and seal of office.

Notary Public, State of Texas

My Commission Expires: 08-25-2004

ANN JOHNSON
Notary Public, State of Texas
My Commission Expires 8-25-2004